Remarks by **Tony T. Brown, Director**

Community Development Financial Institutions Fund (CDFI)

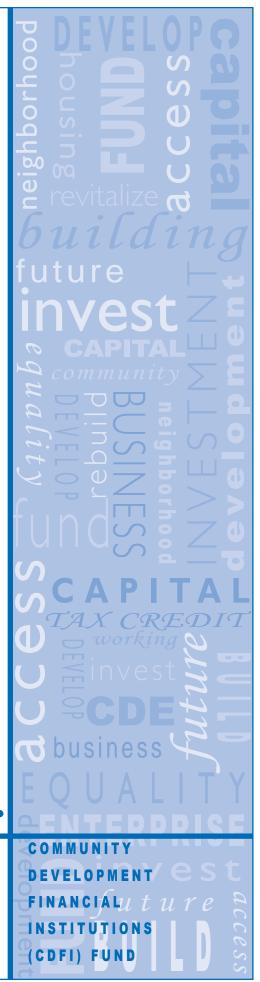
To the

Annual Meeting of National Federal Community Development Credit Unions (NFCDCU)

Crown Plaza Union Station Indianapolis, Indiana

Friday, June 14, 2002







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Introduction

Good morning! It gives me great pleasure to be here today to represent the CDFI Fund, as well as to bring you warm greetings from the Secretary of the Treasury, Paul O'Neill.

First, let me thank Cliff for the kind introduction. Cliff, if I may be so bold, I would like to offer my thanks to you in front of your membership for your support of the CDFI Fund and the advice and counsel you have provided me about our policies and programs.

NFCDCU and its members have played an important part in the growth of the CDFI Fund since its inception. NFCDCU, with Cliff at its helm, serves as a beacon as the Fund worked to better serve the smaller institutions seeking assistance from the Fund as one of the leading advocates for creation of the SECA program.

NFCDCU has helped the Fund achieve its mission by providing training to CDCUs. This training was designed and delivered under contract from the Fund. This has proved to be a very successful partnership - NFCDCU designed training for the market and industry it knows so well has resulted in increased capacity, and hence stronger applications, on the part of applicant credit unions.

I am here to say thank you and to commend you for providing capital and other services to your members, particularly low income credit unions.

Through 2001, the CDFI Fund has invested almost \$ 25 million in CDCUs. We believe in you and the work you do to bring economic stability to our nation's communities. You can continue to count on the CDFI Fund as an effective partner in helping you "provide access to capital to all Americans."

President Bush often reminds people that the great strength in America is not in our government. The great strength in America is in the hearts and souls of citizens all around our country. The great strength in America is embodied in those who work, such as you, in community-based institutions across the country.

Just last month, in remarks to community and business leaders in Los Angeles at the 10-year anniversary of the racial disturbances in South-Central LA, President Bush acknowledged the role of community-based organizations in helping to eliminate pockets of despair.

His remarks sum up the socio-economic commitment of your sponsoring organizations. President Bush believes in you and the valuable work you do to improve America. He knows that we must work hard and that there is plenty of work to do. And he knows that we can eliminate poverty and despair with love, compassion and decency.

CDCUs have been an important network of compassionate organizations and your numbers serve as a testament to your performance:

- During the year 2000, NFCDCU MEMBERS surpassed \$1.7 BILLION in member savings; and
- Loaned \$663 MILLION to 204,000 borrowers.

It is important to note that one of the greatest single limitations on our funding to CDCUs is the availability of appropriate matching funds. As you know, you must have \$1 in matching funds for every dollar of financial assistance that you request from the Fund. I urge you to work with NFCDCU and other industry associations to find private sector sources of funding for credit unions that can serve as matching funds and leverage the CDFI Fund's resources to even more institutions and communities.

Other common reasons for being denied funding (2002 round) are:

- concern as to the financial viability of the organization (based on information provided by the National Credit Union Administration [NCUA]);
- NCUA indicated a potential merger between the applicant and another credit union, resulting in uncertainty regarding the viability of the applicant and/or its business plan;
- substantial overlap with funding provided during a prior funding round.

At the Fund, we are now focusing on the huge build up of undisbursed balances. Our new policy is to minimize the degree of awards undisbursed after a 12 - 15 month period.





Based on undisbursed award balances from prior funding rounds, the most common reasons for such balances or delay in award disbursements, include:

- failure to raise sufficient matching funds, resulting in potentially significant undisbursed award funds and/or deobligation of such balances by the Fund;
- failure to obtain regulatory approval for key initiatives addressed in the business plan/funding application (e.g., branch expansion, offering residential mortgages or small business loans).

It is important to note that the Fund wants to support credit unions to help them expand their lending and critical financial services to underserved communities. We cannot be seen as a source of funds for failing credit unions. If you are in a turn-around position, the Fund will consider supporting you, if you can show that you are also bringing other sources of support to the table.

The Fund has been very sensitive to your needs to raise capital. CU's can, and many have, assessed our technical assistance and SECA programs. Through our TA program, you can hire consultants to help refine new products, acquire needed technology or train staff.

Under our SECA program, the Fund has sought to address the challenge of CU's raising matching funds by lowering the required amount of deposits CU's must raise if they choose retained earnings as match. Instead of four times the award amount (under CORE), it is only two times under SECA. So a \$150,000 SECA award can be matched with a \$300,000 increase in deposits.

We are certainly proud of our progress and I want to spend a few minutes explaining some of my key goals for the Fund.

Many of you know the Fund's purpose as I have shared our mission and vision before. Our mission is "To expand the capacity of financial institutions to provide capital, credit and financial services in underserved markets."

We believe that our success towards this mission will be achieved when "America is a place in which all people have adequate access to affordable credit, capital and financial services."

As credit unions dedicated to serving low income members, we know that you believe in this mission as well. We also understand that your commitment to this market makes it even tougher for your credit unions to maintain adequate capitalization than mainstream credit unions.

You represent 16% of our customer base and to be true to our mission it means being organized in such a way to help you meet the

credit needs of the markets you serve. To do this, we have set forth goals that are intended to streamline our internal processes so that the capital we provide can be on the streets and working faster for the betterment of our nation's communities. They are:

- quicker award decisions & disbursement;
- more focused performance measures for award recipients;
- reduced paperwork burden to CDFIs; and
- improved ability to measure outcomes resulting from Fund awards

Let me give you some details...

Quicker award decisions & disbursement

We are not meeting our mission nor does it help the economy in our nation's underserved communities when it takes on average approximately two years to get from application to award disbursement.

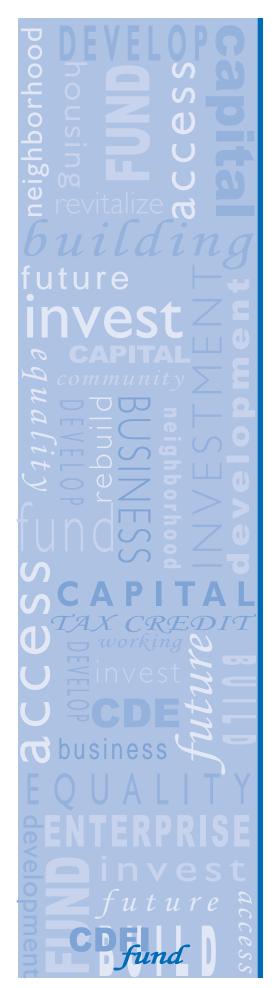
To rectify this, I have already made the following changes:

- 1. I have reorganized the Fund in order to better mobilize staff participating in the awards process.
- Staff is no longer assigned to a specific program. They are now assigned to a region so that they can become familiar with the conditions in that region and can work with the same organizations from certification to application to funding.
- 3. We are currently revising our investment approval process so as to disburse funds within 12 months of application.
- We will soon be launching our first electronic application (under the NMTC Program) which will help streamline internal processes.

I am happy to report that these efforts are proving fruitful. As of today, we have already announced 53 awards under our 2002 round totaling \$20,122,145. This is a full 90 days earlier than last year.

- In fact, I am able to announce today NFCDCU's award of \$2 million to enable NFCDCU to provide more secondary capital investments, especially to small and emerging CUs.
- We plan to award another 6 core awards to CDCUs for \$2.5 million, to be announced this month following review by NCUA.





 Also following NCUA's review, we expect to announce 15 CU's as recipients of SECA awards totaling over \$1 million.

More focused performance measures for award recipients

We are currently working on a plan to streamline the investment closing process. We expect to implement this change within the next several months as we start to negotiate our FY 2002 awards.

The Fund proposes to develop a process whereby our data collection information shows the impact of your lending and provision of financial services. Our goal is to collect this information through one common source for all investors - the CDFI Data Project.

We are also examining how we can help you report loan-level data so that we can assess specific patterns of lending to report community impact from the awards we make. I want to assure you, however, that any new measures posed will be done in consultation with the regulators and crafted in a way to keep the Fund compliant with the CDFI statute.

Reduced paperwork burden to CDFIs

We hope to eliminate the required semi-annual reports required of award recipients, thereby reducing their reporting requirements to annual reports, annual surveys and annual financial statements. We expect to implement this within the next several months.

As we implement these new measures, you will also see less tolerance for late reporting. Today, we have over 200 awardees technically non-compliant due to late reporting. New measures will be put in place that will reject applications for prior awardees deemed non-compliant and we may de-obligate funds for any undisbursed balance where the awardee is deemed non-compliant and uncooperative.

Improved ability to measure outcomes resulting from Fund awards

One of the highest priorities is to improve our ability to measure the outcomes of the Fund's investments in underserved communities and populations, thus demonstrating the importance of CDFIs in the U.S. economy. We will need to know the specific uses of our funds and how you have applied these dollars to your operations and loan programs.

Our goal is to make our performance measures reporting specific to the dollars we invested and the applied use of these funds so as to report measurable impact. To do this accurately, we must have timely and accurate information on all awardees.

In addition to these changes, the Fund has launched two new programs under my tenure.

First is the Native American CDFI Technical Assistance, or NACTA Component of the CDFI Program. This is a very unique technical assistance program that will provide the chance to build capacity for long-time underserved, Native American communities.

The second program is a result of the Community Renewal Tax Relief Act of 2000. The New Markets Tax Credits Program is designed to help spur economic growth in new markets in urban and rural communities across the country.

The NMTC Program permits taxpayers to receive a credit against Federal income taxes for making Qualified Equity Investments (QEIs) in designated Community Development Entities (CDEs). Substantially all of these investments must in turn be used by the CDE to provide qualified investments in low-income communities.

The credit provided to the investor totals 39% of the cost of the investment and is claimed over a seven-year credit period. In each of the first three years, the investor receives a credit equal to five percent of the total amount paid for the stock or capital interest at the time of purchase. For the final four years, the value of the credit is six percent annually. NMTCs will be allocated annually by the Fund to CDEs under a competitive application process.

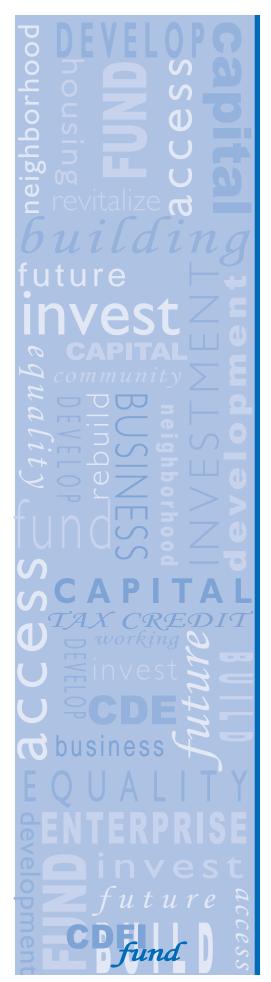
I see the NMTC as being the single most powerful community and economic development tool to come along in the industry. It will help to stimulate up to \$15 billion, yes billion, of needed private sector investments in low-income communities across the country where disinvestments and disenchantment with the economy have too long been the norm. NMTC offers us this tremendous chance to focus on these communities.

This program officially opened for applications earlier this week.

Now, you may be wondering:

- Can a credit union be a CDE? Yes, it can. To be a CDE you
 must have a primary mission of community development and
 be accountable to your market And for those credit unions that
 are certified as CDFIs, you will be automatically deemed a
 CDE. For credit unions that are not CDFIs, if you have that
 low-income designation from NCUA, you will be automatically
 deemed as meeting the primary mission test by virtue of your
 status.
- Can a credit union apply for an allocation of tax credits? No, it cannot. In order to apply for an allocation of tax credits you need to be a for-profit entity. BUT, with CDE designation you can potentially sell loans to or receive investments from forprofit CDEs who successfully competed for an allocation of tax credits.





 What else can a CDCU do related to NMTCs? Your members can form an investment pool, and invest in a CDE with an allocation, and take advantage of the credits as individuals.

We understand that there may be limitations to the IRS temporary regulations, but I encourage you and NFCDCU to think how NMTCs can best help you raise needed capital and to provide comments to the IRS on program guidelines you find restrictive to your industry.

In conclusion, I believe that the CDFI Fund has been a valuable government program that has a history of matching the capital raised by local communities to serve the credit needs of underserved populations. We will continue to work with NFCDCU and other trade associations across the country to develop the best tools to meet the needs of our nation's low-income communities and to help make the CDFI Fund even more impact to your capital fund raising needs.

President Bush expressed that his vision for the country is to provide economic prosperity and security for America's citizens.

At the CDFI Fund, we believe that ALL Americans should have access to affordable capital, credit and financial services.

We believe that communities in need, can be improved.

We believe there should be an inclusive prosperity that has benefits for all Americans.

We believe that low-income citizens desire and deserve decent and affordable housing.

We believe that support and financing to small businesses create jobs and help to alleviate poverty.

We believe in you and the difference you make in the lives of your customers and communities you serve.

It has been an honor to join you today and I look forward to working with you in the months to come.

Thank you very much.